



California Public Employees' Retirement System

Performance Review – June 30, 2011

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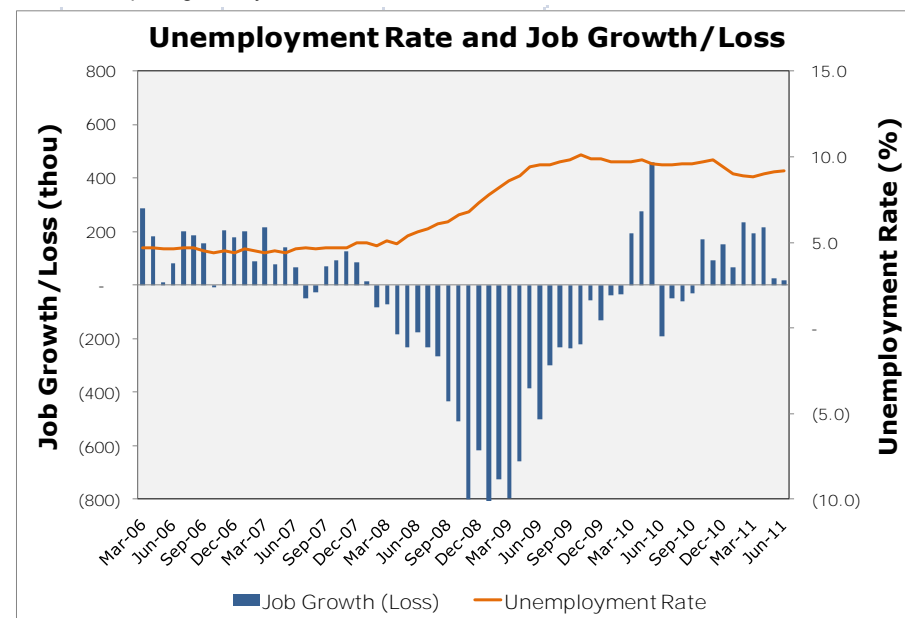
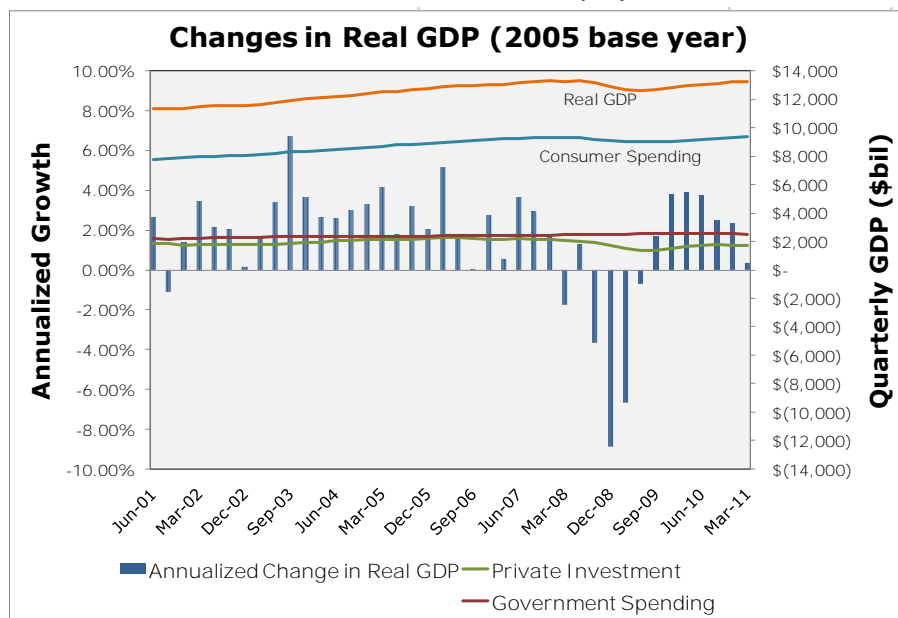
August 2011

Economic Review



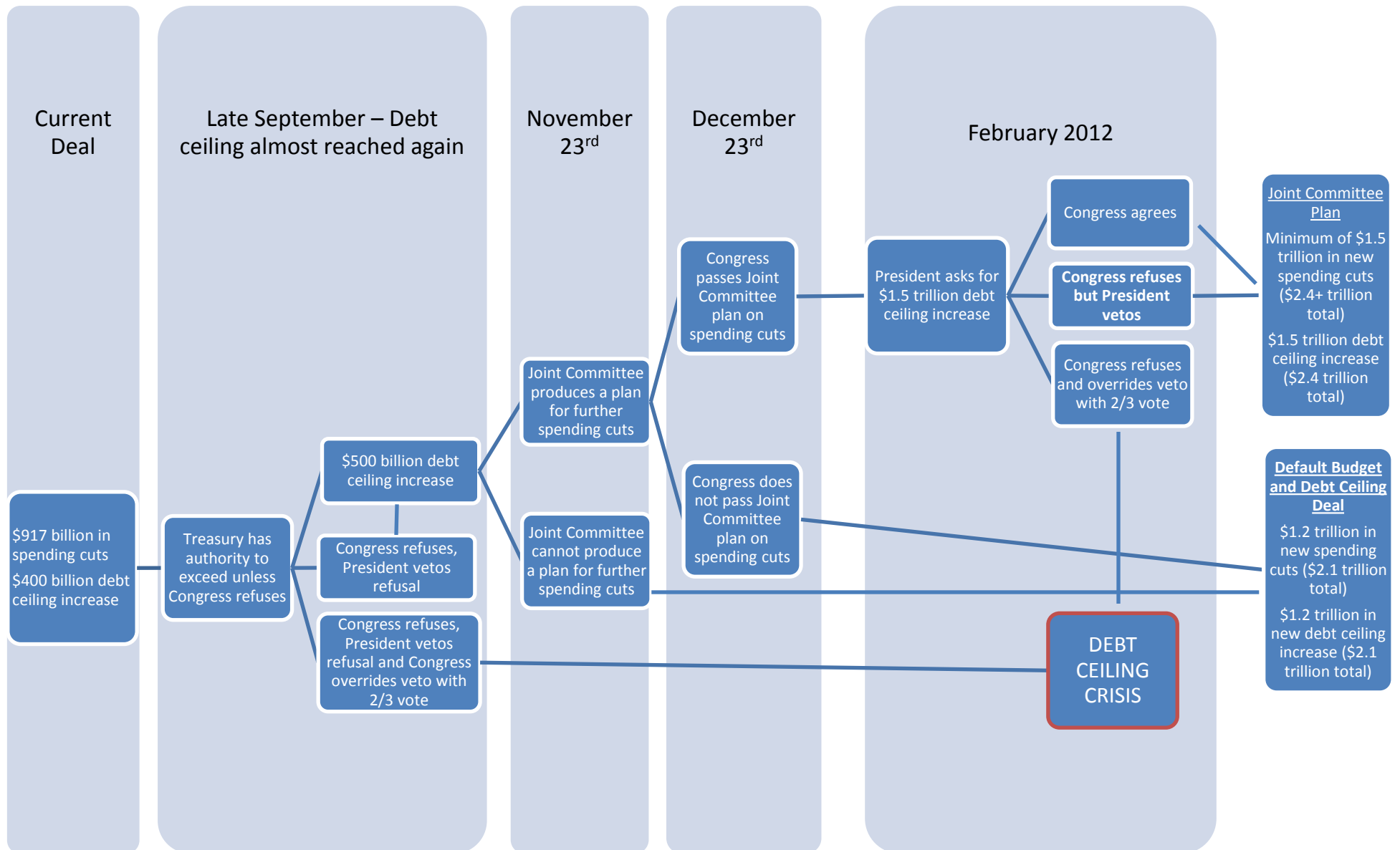
June 30, 2011		Key Economic Indicators			
CPI (all items)		Monthly Change		Cumulative Change	
Seasonally adjusted	Jun-11	-0.2		3-Month	0.4
	May-11	0.2		12-Month	3.4
	Apr-11	0.4		10-Yr Annual	2.4
Breakeven Inflation	10-Year	2.5			
Consumer Sentiment		Jun-11	71.5		
Unv. of Michigan Survey	May-11	74.3			
	1-Yr Ago	76.0		10-Yr Avg	81.5
Manufacturing		Jun-11	55.3	Change in Manufacturing Sector	
Inst. for Supply Mgmt	May-11	53.5		>50	Expansion
Purchasing Mngrs' Idx	1-Yr Ago	57.7		<50	Contraction

Note: Seasonally adjusted CPI data is utilized to better reflect short-term pricing activity.



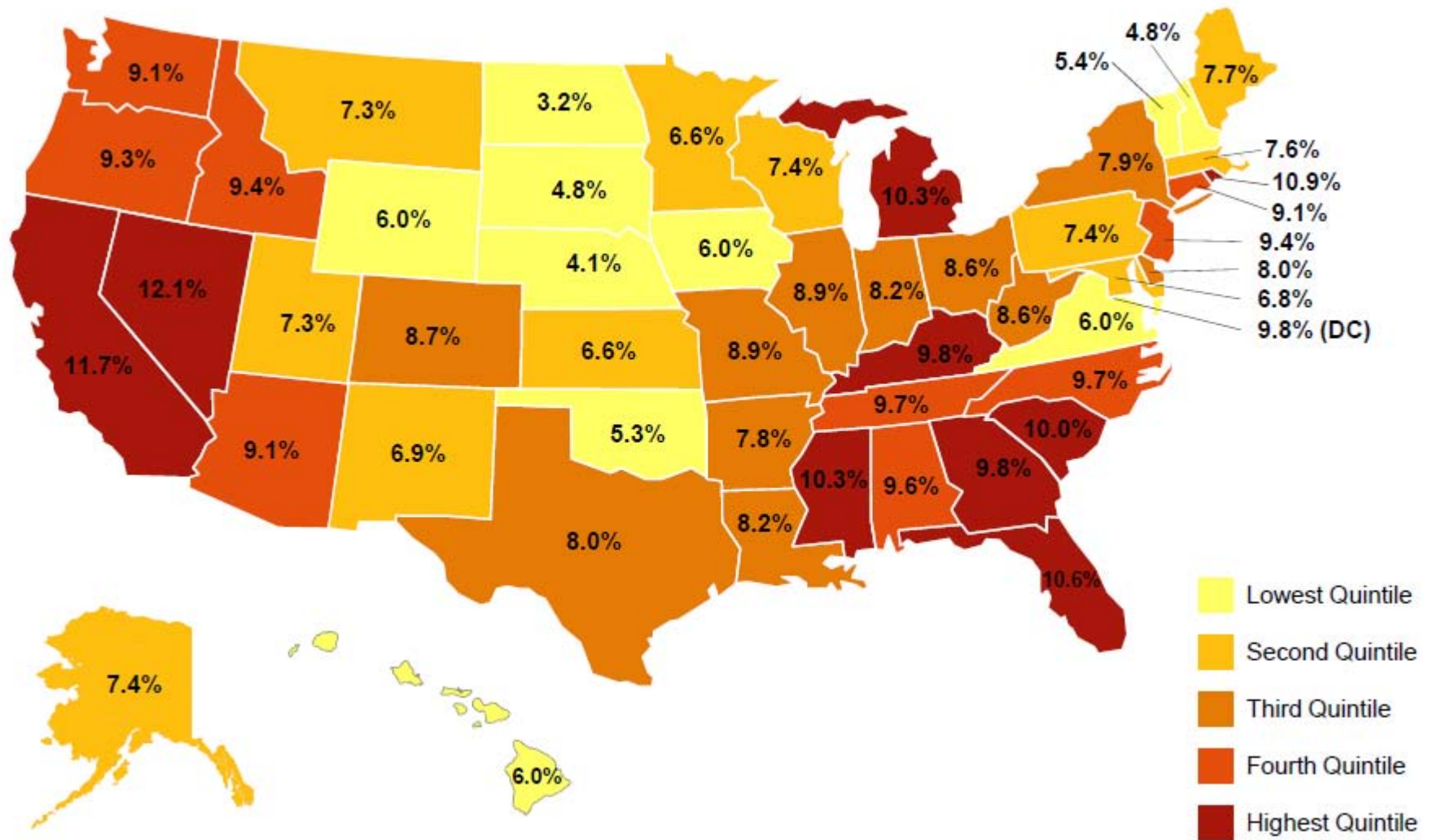
Data sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, Barclays Capital

U.S. Debt Ceiling Timeline



Debt Ceiling reached again by the end of 2012 . . .

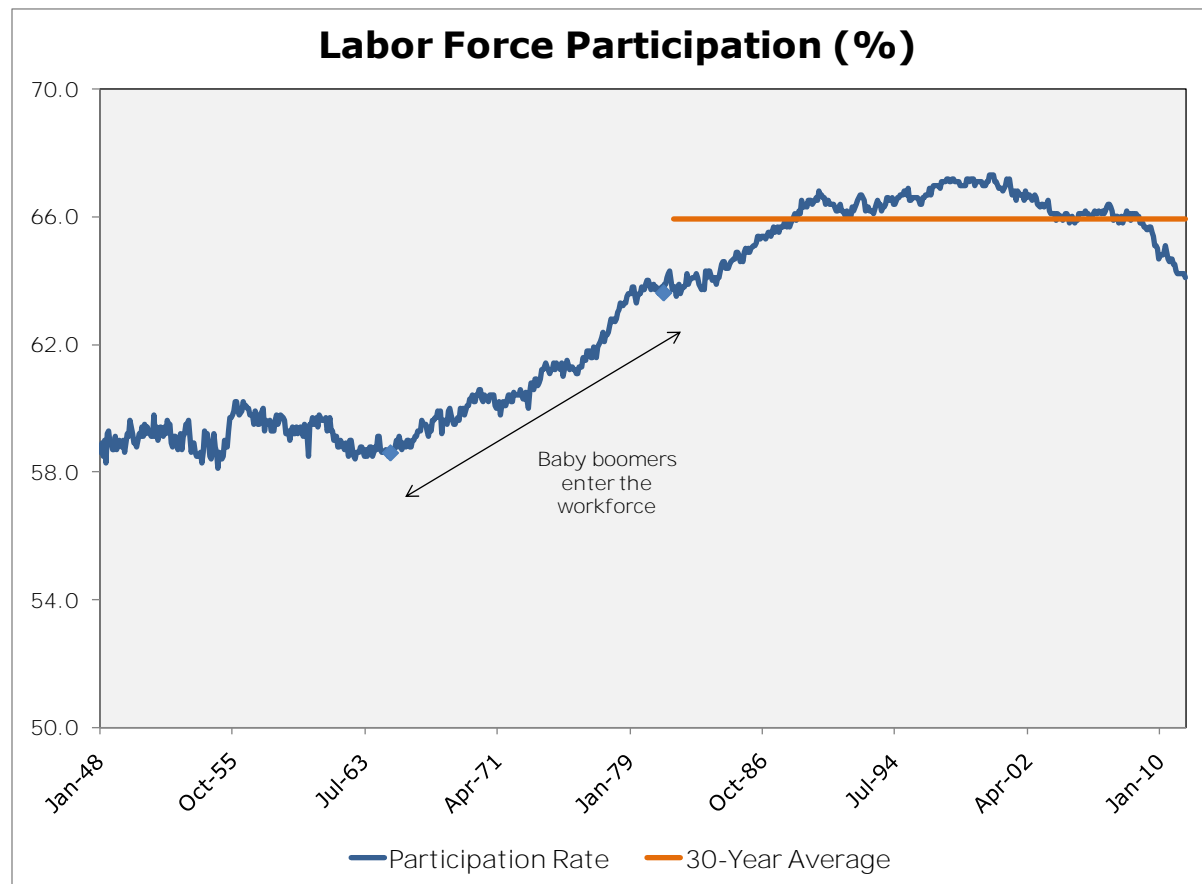
Unemployment by State



Data sources: J.P. Morgan Asset Management

Labor Force

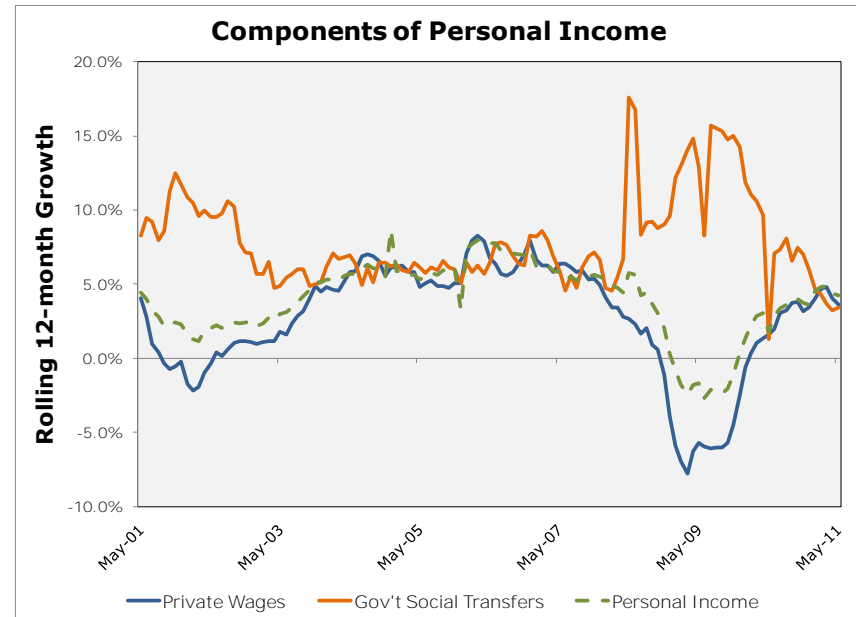
First “baby-boomers” turn 65 this year, participation rate likely to fall?



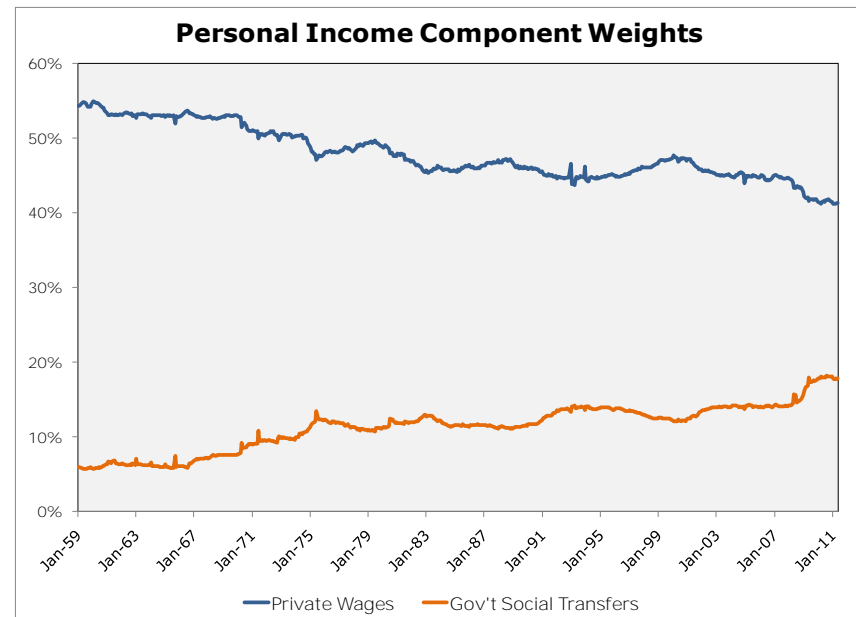
Data sources: Bureau of Labor Statistics

Personal Income

Growth in transfers back to pre-stimulus levels



Steady shift in composition of personal income



Data sources: Bureau of Economic Analysis

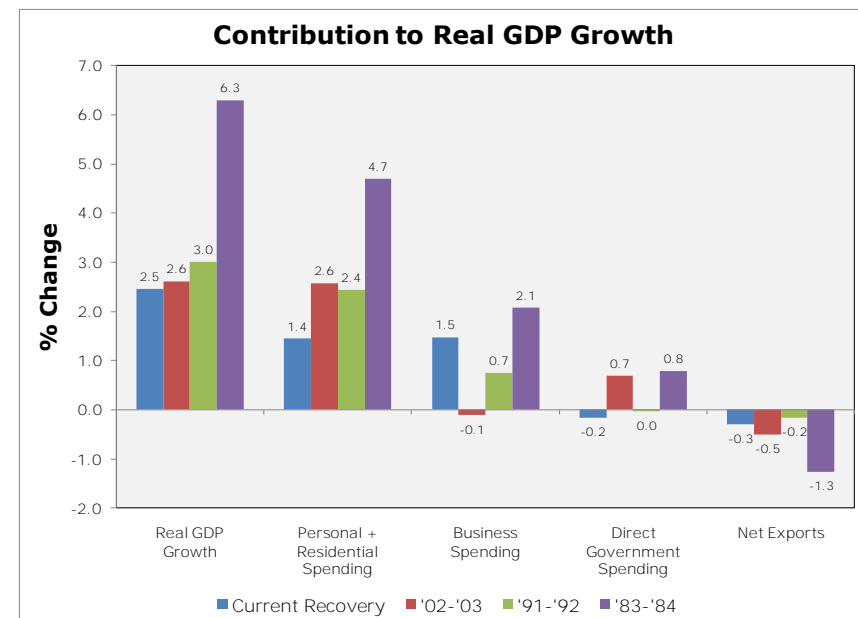
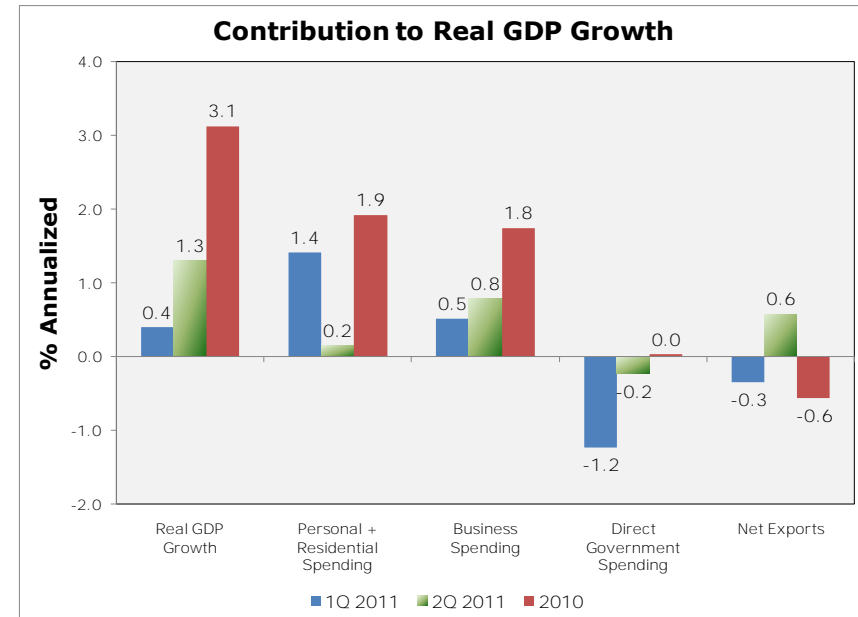
Contribution to GDP *(Including 2Q BEA Advance Estimate)*



Weakness in 2011 due to unusually large drop in direct government outlays and a pullback in business spending

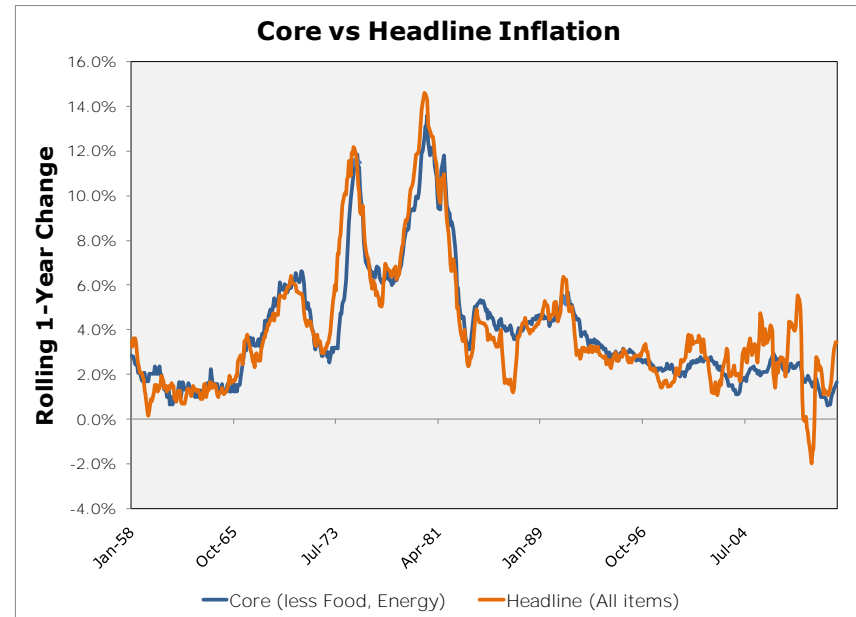
In 2 years of recovery, personal consumption lagging versus previous 2 year recovery periods

Data sources: Bureau of Economic Analysis



CPI Breakdown

Core and Headline inflation have diverged during the past decade as Energy prices have become more volatile

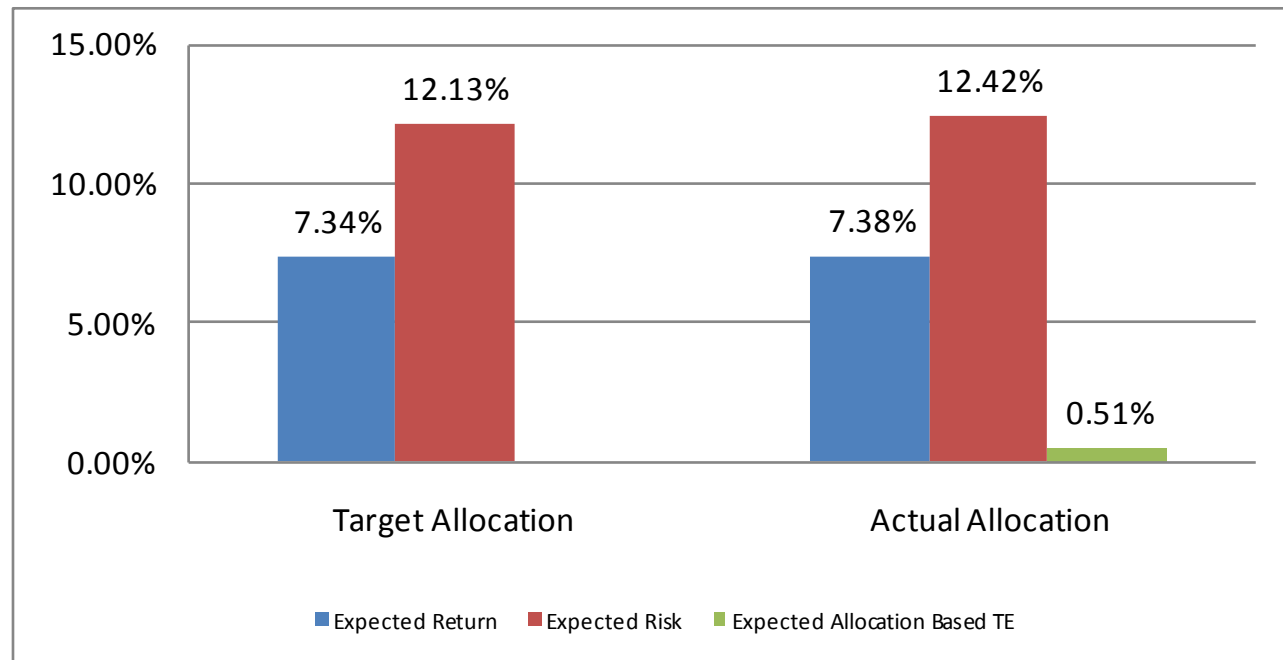


While Transportation costs (including gasoline prices) have come down, food prices are moving higher



Data sources: Bureau of Labor Statistics

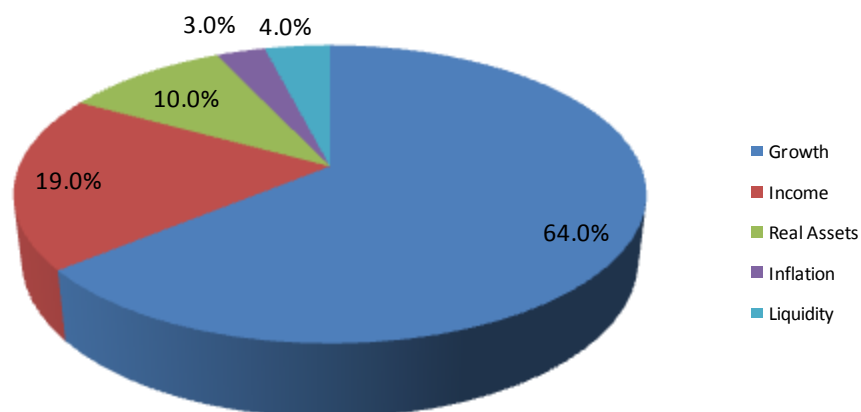
CalPERS Investments are Expected to Provide Return



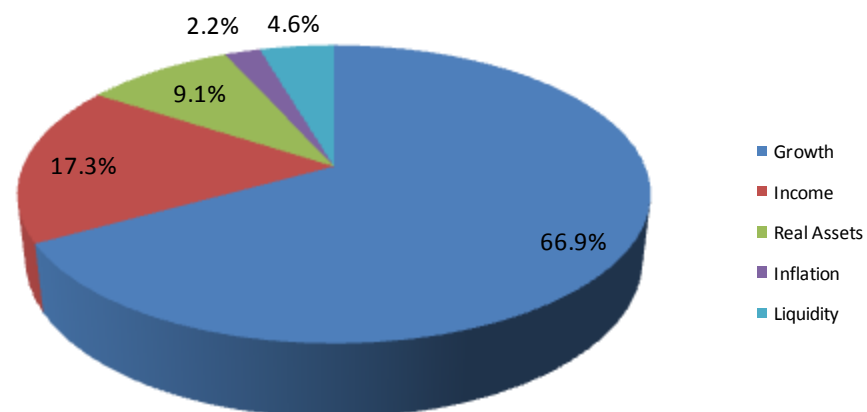
Forecasts using Wilshire's 2011 Asset Class Assumptions

Asset and Risk Allocation

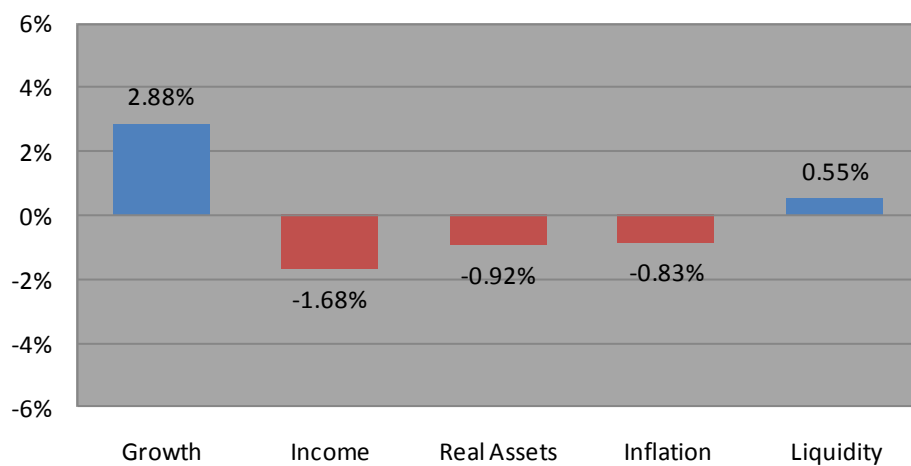
Target Asset Allocation



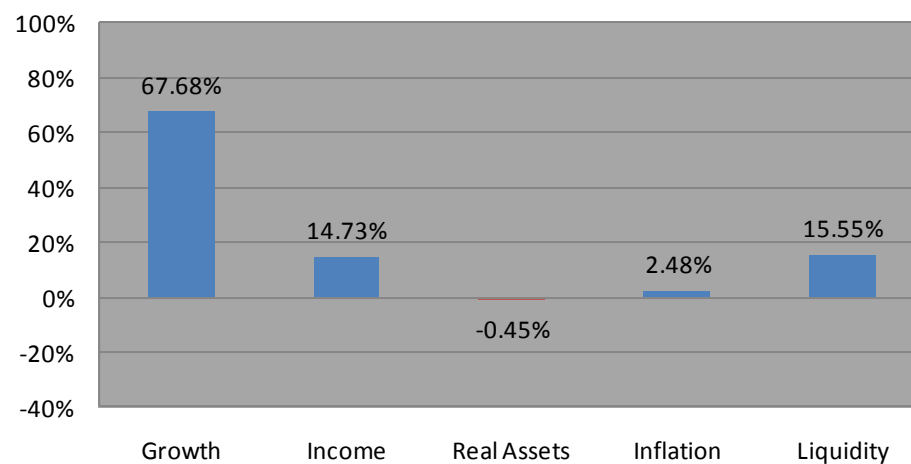
Actual Asset Allocation



PERS Asset Allocation Variance

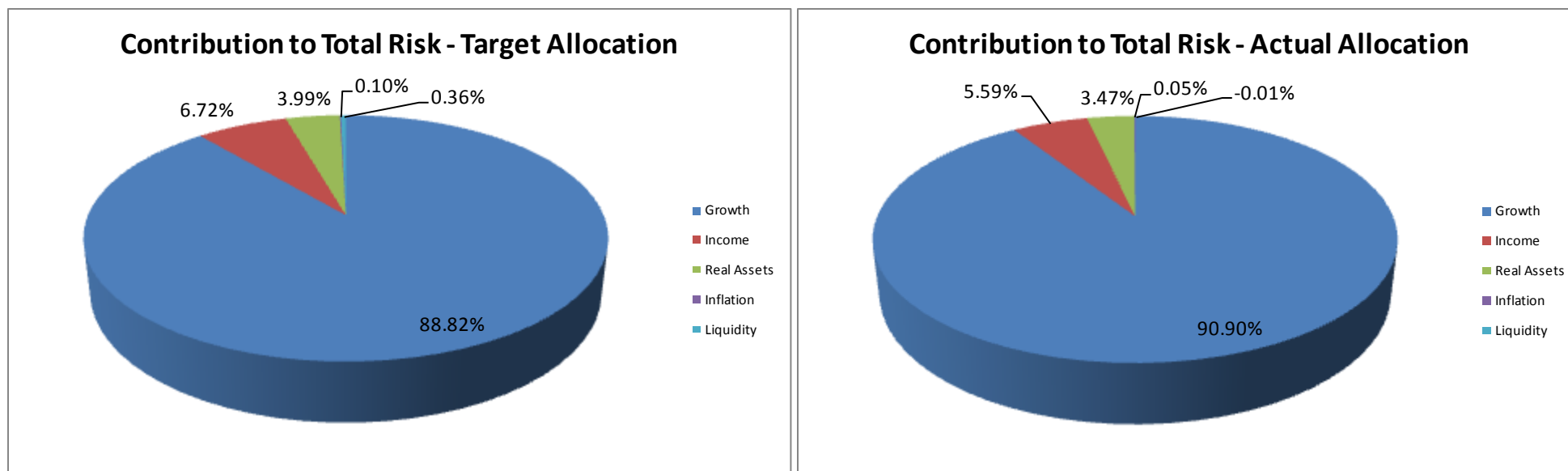


Contribution to TF Tracking Error



Forecasts using Wilshire's 2011 Asset Class Assumptions. The 6/30 Cash allocation included transition assets that have been recaptured elsewhere since the adoption of a new asset allocation policy in July.

Drivers of Expected Tracking Error



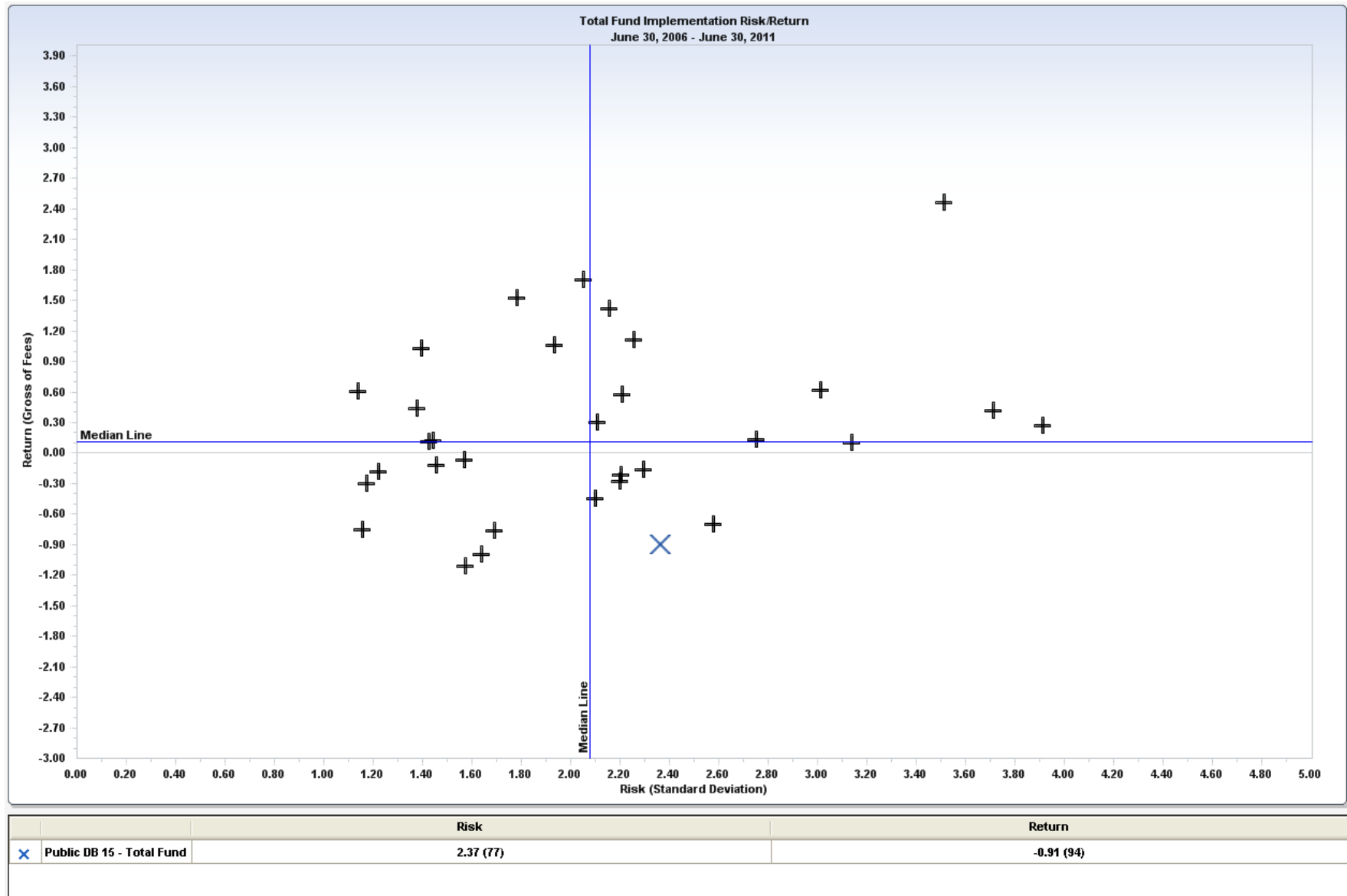
- This tracking error forecast is based on asset allocation variance only.
- Other sources of tracking error (structural within asset classes, manager/program specific source of tracking error, covariance) are not considered here.

Total Fund – Performance

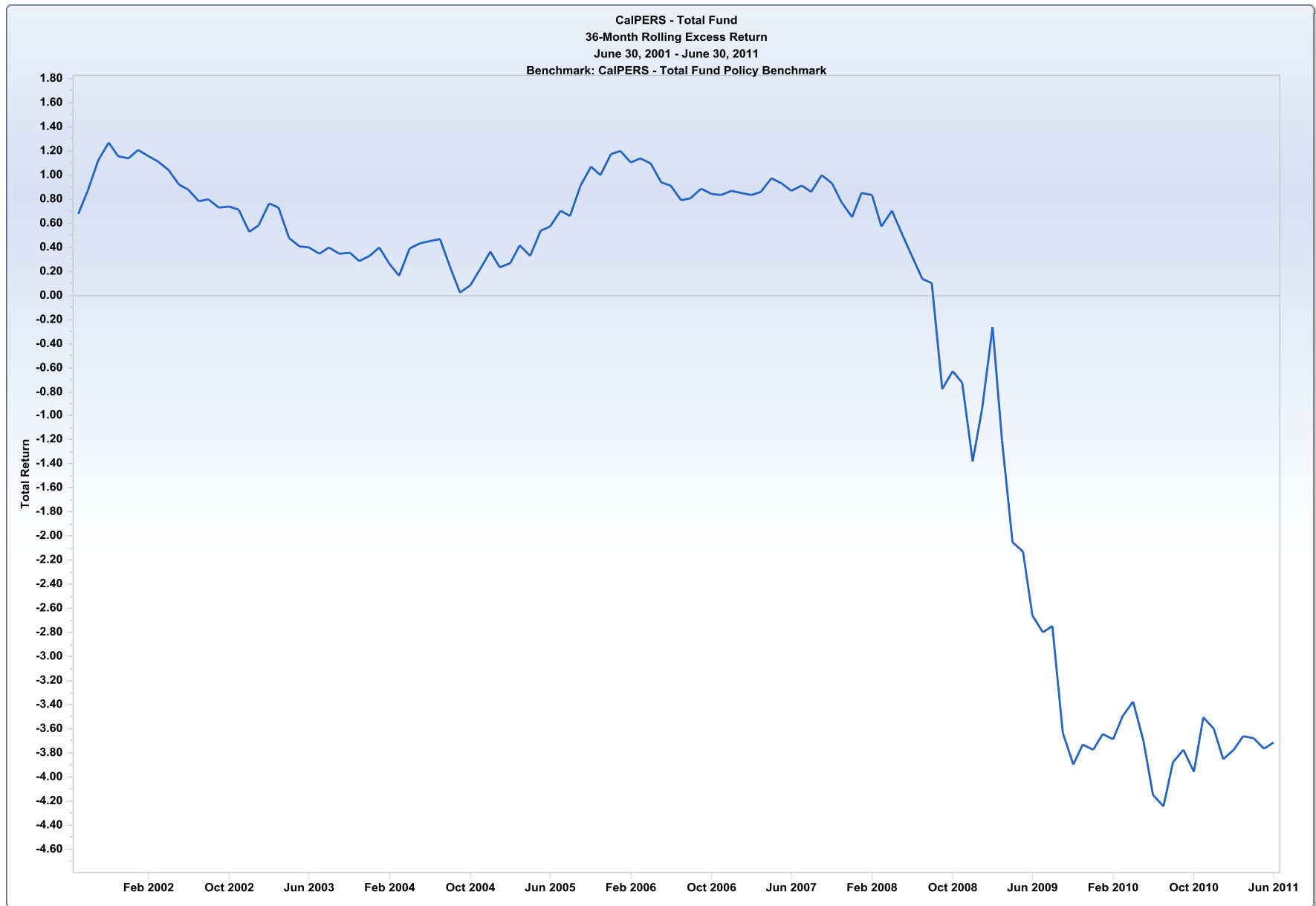


	Market Value	Five-Year Ratios							
		Qtr	1 Year	3 Year	5 Year	10 Year	VaR ¹²	Sharpe ¹³	Info ¹⁴
TOTAL FUND	\$237.5 bil	1.7%	20.7%	0.8%	3.4%	5.4%	\$29.3 bil	0.1	-0.8
<i>Total Fund Policy Index</i> ²		2.2%	20.1%	4.7%	5.8%	6.2%		0.3	0.0
<i>Actuarial Rate</i>		1.9%	7.8%	7.8%	7.8%	7.8%			
<i>TUCS Public Fund Median</i>		1.2%	21.1%	4.6%	4.9%	5.6%			
<i>Wilshire Large Fund Universe Median</i> ³		1.5%	22.3%	3.5%	4.9%	5.8%			
TOTAL GLOBAL EQUITY X-AIM & X-CURRENCY OVERLAY ⁴	123.3	0.3%	30.2%	2.1%	3.3%	4.8%	\$21.5 bil	0.1	-0.4
<i>Equity Policy Index</i> ⁵		0.3%	30.1%	3.3%	4.1%	5.1%		0.1	0.0
<i>TUCS Equity Median</i> ⁶		0.4%	32.2%	3.4%	3.7%	5.0%			
TOTAL FIXED INCOME ⁷	41.1	2.6%	7.0%	9.2%	8.4%	7.7%	\$2.8 bil	0.9	0.2
<i>Fixed Income Policy Index</i> ⁸		3.1%	5.6%	7.9%	7.7%	7.1%		0.9	0.0
<i>TUCS Fixed Income Median</i>		2.5%	7.5%	7.4%	7.0%	6.5%			
TOTAL REAL ESTATE ⁹	18.6	1.8%	10.2%	-23.9%	-12.0%	1.8%	\$2.8 bil	-0.8	-1.1
<i>Real Estate Policy Benchmark</i>		3.8%	19.9%	-0.8%	5.3%	8.4%		0.4	0.0
<i>TUCS Real Estate Median</i>		4.0%	22.1%	-6.5%	0.2%	6.7%			
TOTAL AIM PROGRAM	33.6	6.6%	25.3%	4.0%	10.7%	8.4%	\$10.4 bil	0.8	-0.3
<i>AIM Policy Index</i> ¹⁰		6.9%	20.6%	14.3%	14.9%	8.2%		1.0	0.0
<i>Lagged PERS2500 + 3%</i>		6.9%	20.6%	6.4%	6.1%	7.3%			
TOTAL INFLATION LINKED PROGRAM	8.1	1.1%	13.6%	-2.8%	-.%	-.%	\$1.1 bil		
<i>Policy Index</i>		3.1%	7.7%	5.5%	-.%	-.%			
CURRENCY + ASSET ALLOCATION TRANSITION	8.9								
CASH EQUIVALENTS PROGRAM	3.8	0.1%	0.3%	0.7%	2.3%	2.4%			
<i>Custom STIF</i> ¹¹		0.0%	0.3%	0.6%	2.3%	2.3%			

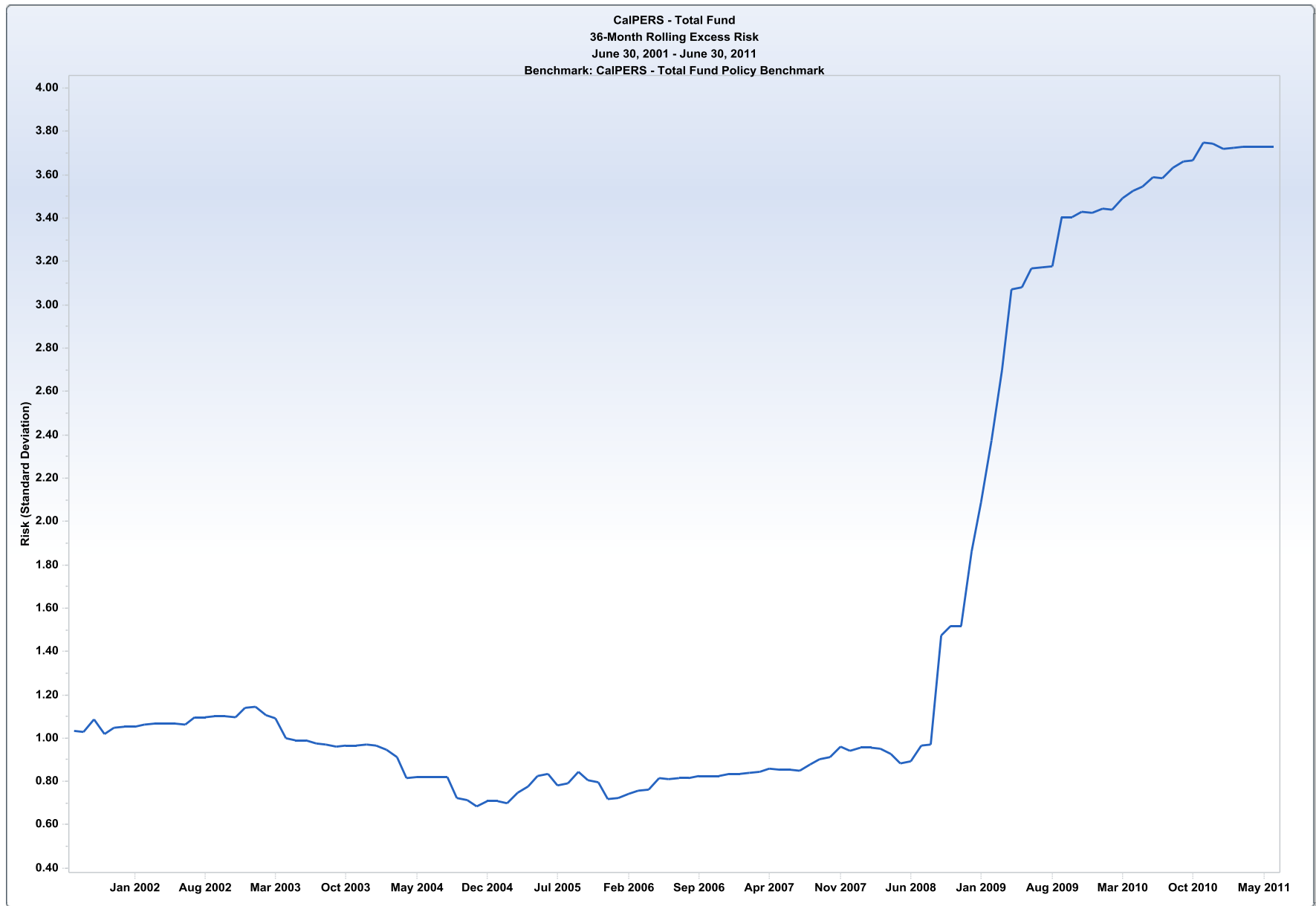
Total Fund – Implementation Return



Total Fund – Rolling Excess Returns



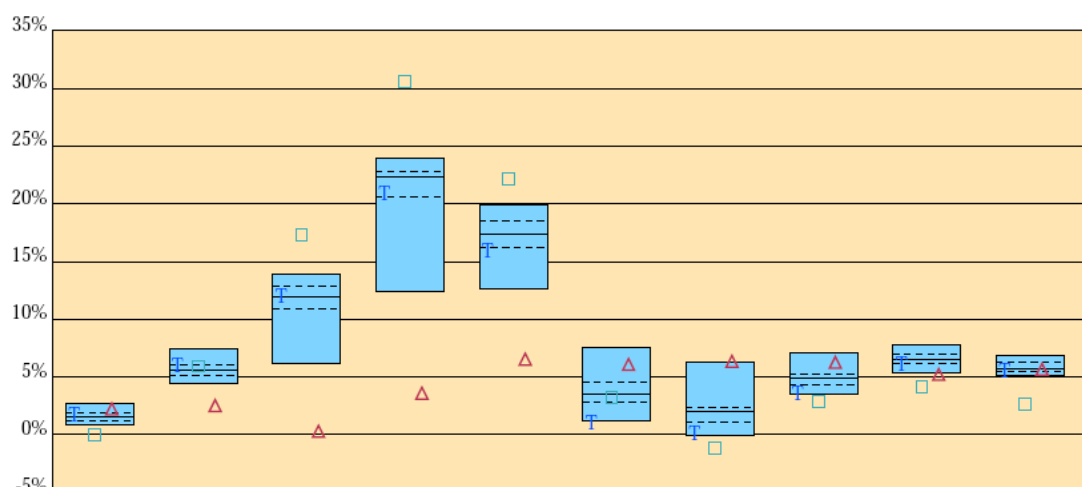
Total Fund – Rolling Tracking Error



Total Fund – Universe Comparison



California Public Employees Retirement
Total Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending June 30, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	2.67	7.42	13.88	23.98	19.93	7.59	6.28	7.04	7.77	6.90
25th Percentile	1.84	6.00	12.87	22.86	18.52	4.53	2.40	5.28	7.00	6.29
Median	1.51	5.57	12.00	22.29	17.34	3.51	2.02	4.94	6.50	5.75
75th Percentile	1.23	5.15	10.90	20.57	16.23	2.79	1.05	4.29	6.16	5.53
95th Percentile	0.80	4.43	6.14	12.45	12.66	1.17	-0.06	3.48	5.38	5.08
T Total Plan - Composites	1.75 (30)	5.98 (30)	12.00 (50)	20.88 (69)	15.98 (85)	0.99 (99)	0.07 (91)	3.62 (93)	6.07 (77)	5.59 (69)
□ S&P 500	0.09 (100)	6.02 (22)	17.43 (1)	30.70 (1)	22.28 (1)	3.34 (58)	-1.05 (100)	2.95 (100)	4.22 (100)	2.72 (100)
△ Barclays Govt/Credit	2.32 (8)	2.61 (100)	0.38 (100)	3.68 (100)	6.62 (100)	6.17 (10)	6.44 (1)	6.35 (8)	5.31 (99)	5.74 (50)

Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Total Fund – Asset Allocation



	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
% Equity	64	63	57	63	63	62	63	56
% AIM	-	-	5	5	5	5	6	8
% Fixed Income	29	27	28	24	24	25	23	27
% ILAC	-	-	-	-	-	-	-	1
% Real Estate	6	9	9	7	6	5	8	8
% Cash	1	1	1	1	1	3	1	1

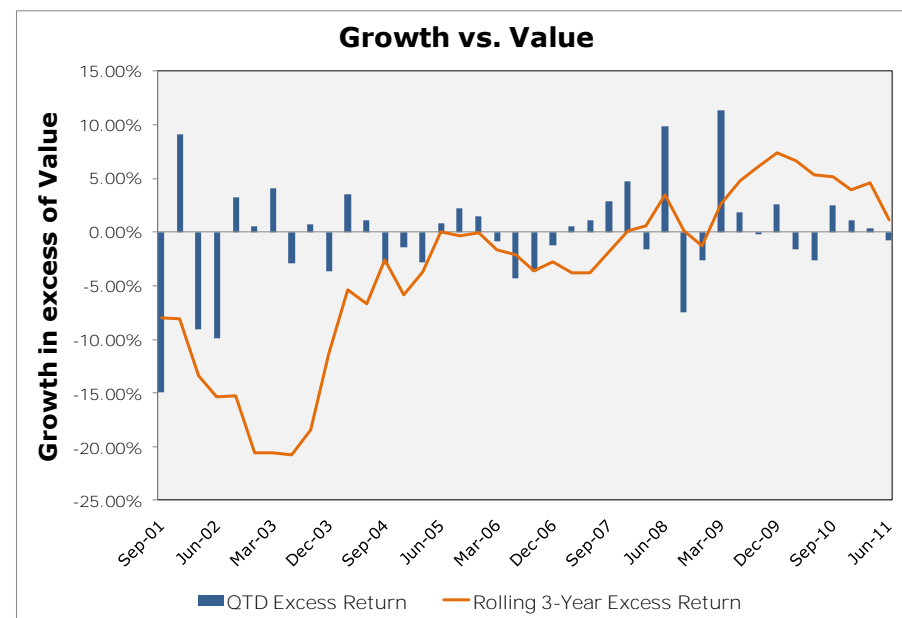
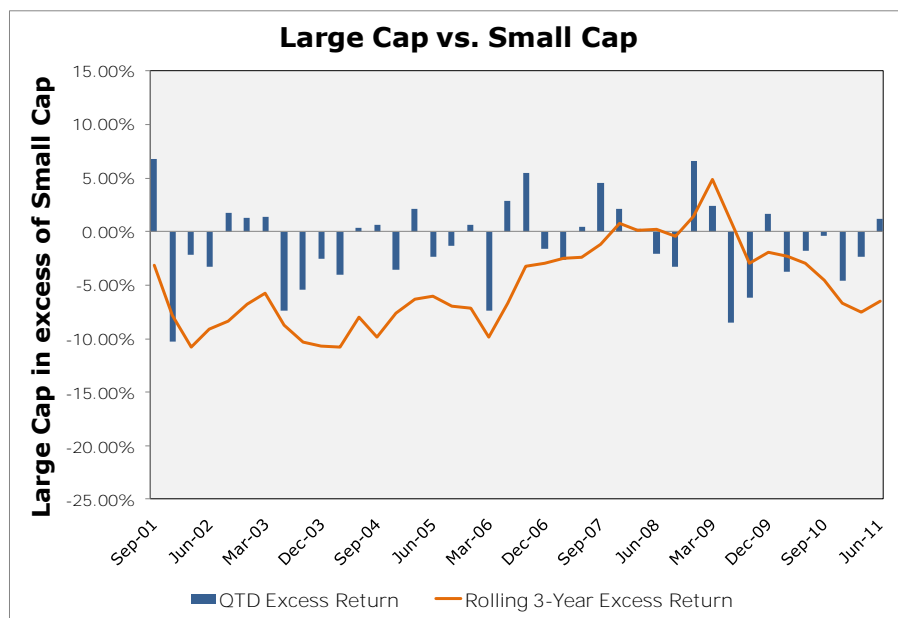
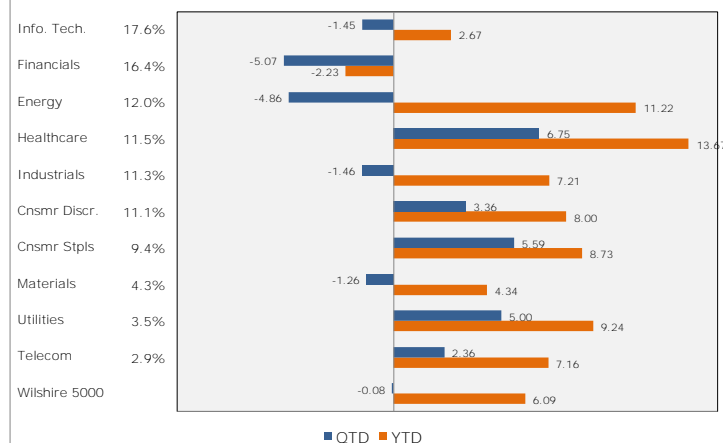
	<u>2008</u>	<u>2009</u>	<u>1Q10</u>	<u>2Q10</u>	<u>3Q10</u>	<u>4Q10</u>	<u>1Q11</u>	<u>2Q11</u>
% Equity	50	54	54	50	51	53	53	53
% AIM	12	12	13	14	14	14	14	14
% Fixed Income	24	24	23	24	23	21	20	17
% ILAC	2	2	2	2	3	3	3	3
% Real Estate	10	7	7	8	7	7	8	8
% Cash	1	1	1	2	2	2	2	5

U.S. Capital Markets: Equity



June 30, 2011	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
Wilshire 5000	-0.1	6.1	32.0	4.0	3.4	3.7
Wilshire U.S. Large Cap	0.1	6.0	31.2	3.2	3.2	3.2
Wilshire U.S. Small Cap	-1.1	7.3	39.7	10.4	6.2	8.3
Wilshire U.S. Large Growth	-0.5	5.4	32.9	3.9	4.8	2.3
Wilshire U.S. Large Value	0.6	6.5	29.5	2.7	1.6	4.1
Wilshire U.S. Small Growth	-0.2	9.9	45.1	10.2	7.4	7.1
Wilshire U.S. Small Value	-2.0	4.7	34.4	10.7	4.9	9.2
Wilshire REIT Index	3.9	10.9	35.6	4.9	1.8	10.6
Dow Jones UBS Commodity Index	-6.7	-2.6	25.9	-11.9	-0.1	6.6

Wilshire 5000 Sector Weight & Return (%)



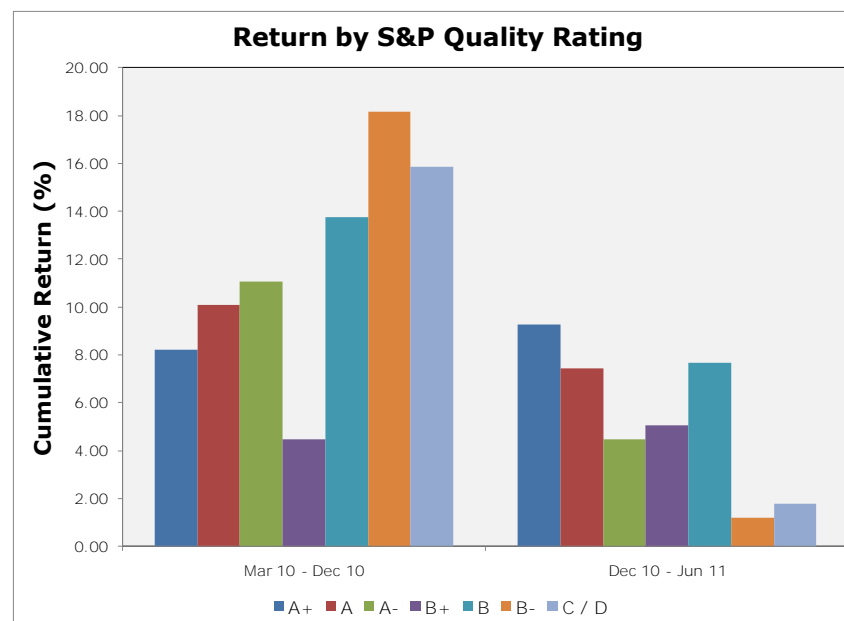
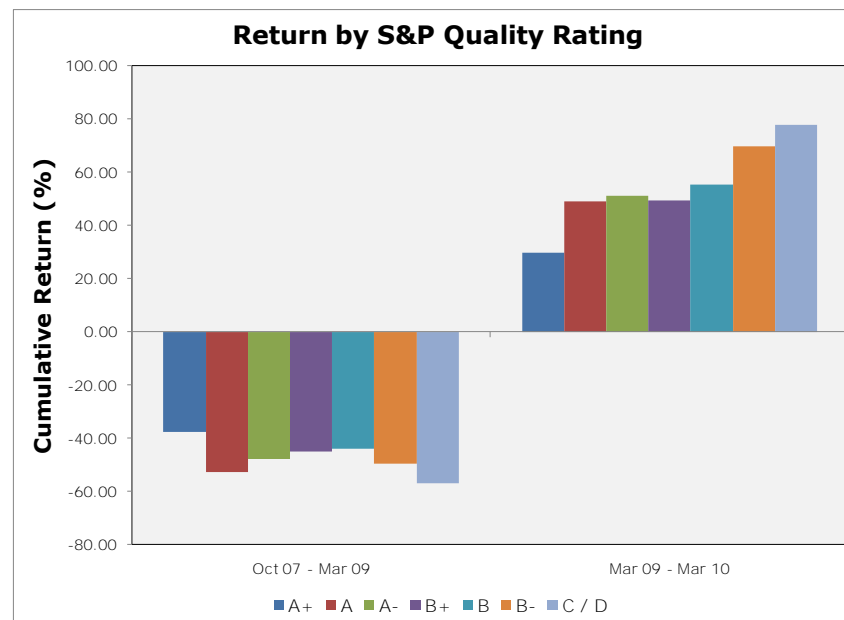
Data sources: Wilshire Compass, Wilshire Atlas

Returns by Quality Segment

After equity sell-off, low quality outperformed in the early part of the rebound

Low quality continued to outperform in 2010 – although to a lesser degree – while high quality is leading in 2011

Data sources: Wilshire Atlas



Corporate Profitability and Cash



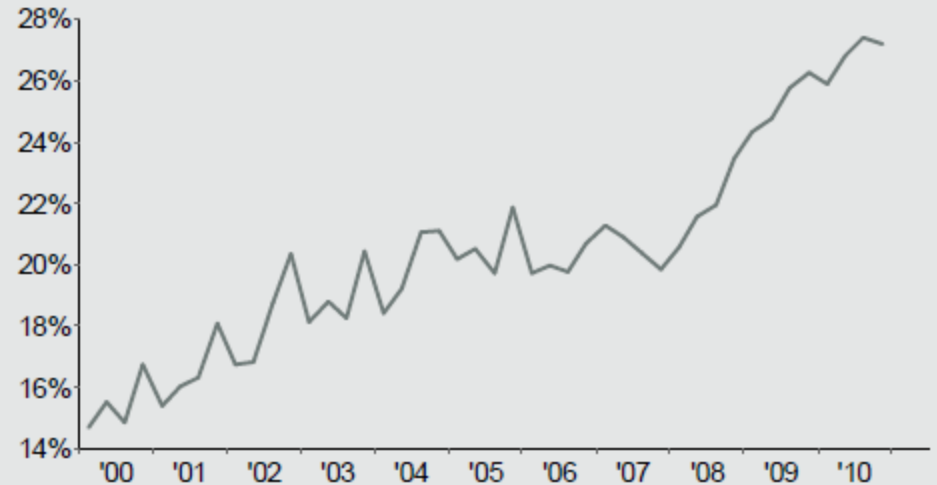
U.S. companies have a very high level of cash on hand

- Potential for M&A activity, share buybacks, or investment in either equipment or personnel

Profit margins have rebounded and currently sit at the high end of the range over the last 17 years

Corporate Cash as a % of Current Assets

S&P 500 companies – cash and cash equivalents, quarterly



Net Profit Margin

Net income/sales



Data sources: JP Morgan, Standard & Poor's, Compustat, Factset